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Indonesia

Sugar Annual

Indonesia Sugar Annual Report 2011

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Report Highlights:
In marketing year (MY) 2010/11 Indonesia is estimated to produce 1.77 million metric tons (MMT) of plantation white sugar, a decrease from 1.91 MMT produced in the previous year. Imports of raw sugar are forecast to increase to 2.84 MMT compared to 2.6 MMT in MY 2009/10. This increase is attributed to lower domestic production and an increased operational demand as new Indonesian sugar refineries have come on-line. Refined sugar imports are forecasted to decline significantly to 160,000 metric tons (MT), over last year’s 600,000 MT due to higher prices of refined sugar in international markets.

Executive Summary:

The Government of Indonesia (GOI) strictly regulates sugar production and trade. In MY 2010/11, Post expects that Indonesia will produce 1.77 MMT of plantation white sugar, a decrease of 7.3 percent compared to the 1.910 MMT produced in MY 08/09. In line with the decrease in production, the GOI authorized Indonesian importers (PT. Perkebunan Nusantara IX, PT. Perkebunan Nusantara X, PT. Perkebunan Nusantara XI, PT. Rajawali Nusantara Indonesia, Bulog, and PT. Perusahaan Perdagangan Indonesia) in June 2010 to import a total of 450,000 MT of plantation white sugar. However, higher prices of refined sugar in the international market have limited these importers ability to import. As of April 2011, only 85,700 MT of white sugar - equivalent to 91,700 MT of raw sugar - have actually landed in Indonesia.

Due to the shortage in plantation white sugar production, the retail price of plantation white sugar in domestic retail markets increased to Indonesian rupiah (Rp.) 10,875/kg ($1,260/MT) in May 2010 to Rp. 11,050/kg ($1,281 /MT) in April 2011.

Commodities:

Select

Production:

Indonesia produces plantation white sugar from sugar cane, primarily produced for direct human consumption. Indonesia also produces refined sugar from imported raw sugar, which is generally used for processing by the food and beverage industries.

A total area of 335,000 hectares were planted with sugar cane in MY 2010/11, a decrease of about 15,000 hectares from the previous year. The decrease in area planted is primarily due to non-agricultural land conversion, such as road and housing construction in areas which were previously centers of sugar cane production. This is especially true on Java, which has been particularly impacted by the urbanization of agricultural land. Farmer preference for other crops such as rice, corn, and soybeans, chiefly on the island of Java, has also resulted in fewer hectares of sugar cane.

The total area planted with sugar cane is forecasted to slightly increase to 340,000 hectares in MY 2011/12 due to area expansion outside of Java. However, efforts to develop new sugar cane plantations outside of Java have been hindered by the lack of supporting infrastructure and land ownership problems. Therefore, Indonesian sugar mills must also attempt to increase sugarcane production by adopting new planting patterns, using higher quality varieties, and by better timing of the harvest to increase the recovery rate.

The milling period of MY 2010/11 started on Java in June 2010. The Sumatran milling period began as early as February 2010. The milling period ended in January 2011, with both regions experiencing longer than average milling periods compared to a more normal period of 150 days. Incessant rainfall and the concomitant longer milling period reduced the sugar content of the sugar cane. This led to a lower-than-average recovery rate of 6.5 percent in MY 2010/11 compared to 7.6 percent reached in MY 2009/10. The 2010 milling season was marked by especially heavy rains, which led to flowering, long sugar cane stalks, and difficulties in loading harvested sugar cane. Subsequently, this will decrease cane production in MY 2010/11 to approximately 1.77 MMT – a 7.3 percent decrease from MY 2009/10.

Provided that Indonesia experiences more typical weather patterns, as are currently predicted by the Indonesian Meteorology, Geophysics, and Climatology Agency (BMKG), the recovery rate is estimated to rebound to 7.5 percent in MY 2011/12. However, this target may be hampered by poor recovery rate analysis, poor harvest management, sugar cane transportation problems, and old machines at sugar mills.

Currently, a total of 48 sugar mills are located in Java and accounted for 63 percent of Indonesian white sugar production in MY 2010/11. The balance is produced by 58 sugar mills outside of Java, primarily in Sumatera. According to the Indonesian Ministry of Agriculture's Directorate General of Estate Crops, the GOI has provided licences for opening new sugar cane plantations, totalling about 215,000 hectares, in Riau, Lampung, South Sulawesi, Central Java, East Java, South Sulawesi, West Kalimantan, and Papua.

Also, three new Javenese sugar refineries began operations in 2009. The combined annual output of these new facilities is approximately one MMT and these facilities are currently operating at 84 percent of total operational capacity. Total operational capacity for all of the major Javanese refineries is around 3.2 MMT. In CY 2010 the eight sugar refineries produced a total of 2.4 MMT of refined sugar.

As part of its agricultural policy, Indonesia has a stated goal of trying to achieve self-sufficiency in sugar by 2014. Outside observes largely consider this goal as unrealistic and would require significant advances in productivity.

Consumption:

Due to growing demand from the food and beverage industry, and in line with the population growth, Indonesian sugar consumption is estimated to increase to 5.0 MMT in MY 2010/11. Post forecasts that consumption will continue to increase to 5.2 MMT in MY 2011/2012. Direct human consumption is estimated at 2.8 MMT, while the food and beverage industry uses the balance. Indonesian per capita sugar consumption is 19 kg per year.

Trade:

Referring to the import realization data issued by the Indonesian Sugar Council (*Dewan Gula Indonesia*, DGI), Post revised the MY2009/10 Indonesian imports of raw sugar to 2.6 MMT from initially 2.0 MMT.

As a regulated commodity, white sugar can only be imported by the four registered importers, which are also sugar companies that purchase plantation sugar cane from farmers to produce white sugar. Raw sugar and refined sugar can only be imported by processors that will use the raw sugar as a raw material for their production. Also, whenever it deems necessary, the GOI can grant sugar processors permission to import raw sugar, provided that it is used to meet demand, due to domestic production shortfalls.

In June 2010, the Minister of Trade granted import licenses to PTPN IX, X, XI, PT. Rajawali Nusantara Indonesia, Perum Bulog and Perusahaan Perdagangan Indonesia to import a total of 450,000 MT of white sugar. These measures were taken in an effort to stabilize the soaring price of white sugar in the domestic market. The import licenses stipulate that the sugar must be imported before the beginning of the milling season in 2011 which is expected to start in May 2011. Due to skyrocketing prices of refined sugar in the international market, only 85,700 MT of the white sugar has landed in the country as of April 2011. In an effort to support sugar imports and monitor prices during MY 2009/10, the Minister of Finance issued Regulation No. 239/PMK.011/2009 in December 2009. This was an amendment to Regulation No. 150/PMK.011/2009, issued the previous September 2009. The amended regulation stated that the effective period of reduced import duty for sugar that was initially valid until December 31, 2009 was extended to April 31, 2010. The reduced import duty for sugar is as follow:

SUGAR IMPORT DUTY (ID) AND VALUE ADDED TAX (VAT)
(Based on Minister of Finance Regulation No. 150/PMK.011/2009)

No.	Commodity	ID		VAT	Restriction
		(Rp./Kg)	(US$/ton)	(%)	
1.	Raw sugar from sugar cane	150	17.4	10	NPIK, IP, SNI
2.	White sugar	400	46.4	10	NPIK, IT
3.	Refined sugar	400	46.4	10	NPIK, IT

Note:
NPIK = *Nomor Pengenal Importer Khusus* (Specific Importer Identification Number)
IP = Importer Producer
IT = Registered Importer

Since the regulation expired at the end of April last year, the sugar import duties resumed to normal levels:

No.	Commodity	ID		VAT	Restriction
		(Rp./Kg)	(US$/ton)	(%)	
1.	Raw sugar from sugar cane	550	63.7	10	NPIK, IP, SNI
2.	White sugar	790	91.6	10	NPIK, IT
3.	Refined sugar	790	91.6	10	NPIK, IT

Source: Indonesian Customs Tariff Book 2010.

According to the Global Trade Atlas, Indonesia imported approximately 177,000 MT of refined sugar and 1,318,000 MT of raw sugar in MY 2009/10. A total of 27 food and beverage manufacturers imported the refined sugar in MY 2009/10. Thailand (70 percent), Malaysia (17 percent), Australia (7 percent), and South Korea (4 percent) were the main suppliers of refined sugar to Indonesia. For raw sugar, Thailand (39 percent), Brazil (21 percent), Australia (16 percent), and South Africa (9 percent) were the main suppliers.

Indonesia imports most of its sugar needs from Thailand not only because of the freight advantage but also because Thailand can meet specifications for color based on Indonesia's sugar requirements called "Indospec". The GOI normally determines the quality of sugar that the registered importers can import. However, due to the higher price of sugar and the availability within the international market, the GOI sought to provide flexibility to white sugar importers. The flexibility allowed imports of white sugar at higher quality than levels that were stated in the import permit of 70-200 International Units for the import period of January-April 2010.

The GOI reduced the allocation of refined sugar imports for food and beverage industry to only 165,000 MT in CY 2011. This amount is lower than the refined sugar imports allocation in 2010 of 200,000 MT. The GOI expects that the food and beverage industry to consume more domestically produced refined sugar. However, this allocation is subject to change should any company require refined sugar with higher quality than what the domestic refineries can produce. The GOI limits the issuance of refined sugar import permit for the food and beverage industry to every six months.

A total of three sugar mills imported approximately 110,225 MT of raw sugar in CY2010 to fill mills idle in the wake of low Indonesian production. For CY2011, the Indonesian Ministry of Agriculture recently recommended the Indonesian Ministry of Trade to allow imports of approximately 200,000 MT of raw sugar to sugar mills to fill their idle capacity. However, to date, the Indonesian Ministry of Trade has not issued the requisite authorization for these imports to occur.

With the increase of total installed capacity of sugar refineries, a surplus of refined sugar production could occur. According to the Indonesian Minister of Trade, any surplus can be exported and the sugar refineries can decide when and how much to export. However, the sugar refineries are currently focused on fulfilling domestic demand.

Stocks:

Due to the shortfall of plantation white sugar production and increased sugar consumption, the ending stocks of MY 2010/11 are expected to decline to 515,000 MT compared to 750,000 MT in previous MY2009/10. Post estimates these levels will further decrease to 413,000 MT in MY 2011/12.

Policy:

The Minister of Trade issued a regulation stating that white sugar ranging from 70-200 International Units may be imported if the domestic production of white sugar is not sufficient to meet demand. Sugar imports are prohibited one month prior to the milling season, during the milling season, and two months after the milling season. Registered sugar importers are required to support the sugar price should the price fall below Rp. 6,350/kg (US$ 736/MT) at the farmer level. The support is through purchase of farmers' sugar cane production in cooperation with a third party that has secured a permit from the local Association of Sugar Cane Farmers.

To achieve the target of sugar self sufficiency by 2014, the GOI launched the sugar machines revitalization program in 2008. This program gives reimbursement to any sugar factory who wishes to buy new machines. The new machines must be domestically produced and have high technology. A 10 percent discount will be given for any purchase of new machine with maximum price of Rp. 10 billion ($1.1 million). The GOI provided a total of Rp. 2.6 trillion ($288 million) to fund this program. The sugar factories have absorbed approximately 53.09 percent of the budget. The GOI will continue this program throughout 2011.

Production, Supply and Demand Data Statistics:

PSD: Sugar Cane for Centrifugal

Sugar Cane for Centrifugal Indonesia	2009/2010		2010/2011		2011/2012	
	Market Year Begin: May 2009		Market Year Begin: May 2010		Market Year Begin: May 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	350	350	0	335		340
Area Harvested	340	340	0	325		330
Production	26,600	26,600	0	27,360		28,000
Total Supply	26,600	26,600	0	27,360		28,000
Utilization for Sugar	26,600	26,600	0	27,360		28,000
Utilizatn for Alcohol	0		0			
Total Utilization	26,600	26,600	0	27,360		28,000
TS=TD		0		0		0

Note: the last column of each Marketing Year is not official USDA data.

PSD: Centrifugal Sugar

Sugar, Centrifugal Indonesia	2009/2010		2010/2011		2011/2012	
	Market Year Begin: May 2009		Market Year Begin: May 2010		Market Year Begin: May 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	340	340	450	750		515
Beet Sugar Production	0	0	0	0		0

Cane Sugar Production	1,910	1,910	1,911	1,770		2,088
Total Sugar Production	1,910	1,910	1,911	1,770		2,088
Raw Imports	2,000	2,600	2,310	2,835		2,850
Refined Imp.(Raw Val)	600	600	600	160		160
Total Imports	2,600	3,200	2,910	2,995		3,010
Total Supply	4,850	5,450	5,271	5,515		5,613
Raw Exports	0	0	0	0		0
Refined Exp.(Raw Val)	0	0	0	0		0
Total Exports	0	0	0	0		0
Human Dom. Consumption	4,400	4,700	4,900	5,000		5,200
Other Disappearance	0	0	0	0		0
Total Use	4,400	4,700	4,900	5,000		5,200
Ending Stocks	450	750	371	515		413
Total Distribution	4,850	5,450	5,271	5,515		5,613
TS=TD		0		0		0

Note: the last column of each Marketing Year is not official USDA data.

Author Defined:
Prices

In 2010 based on a recommendation from DGI, the Indonesian Minister of Trade set the price of plantation white sugar floor at Rp. 6,350/kg ($736/MT). The GOI announced its intentions to change the plantation white sugar floor price during MY 2010/11and is currently calculating the plantation white sugar production costs.

Due to the shortage in plantation white sugar production, the retail price of plantation white sugar in the domestic retail market increased to Rp. 10,875/kg ($1,260/MT) in May 2010 to Rp. 11,050/kg ($1,281 /MT) in April 2011. During that period, the highest price level reached of Rp. 11,175/kg ($1,295/ton) in February 2011.

LONDON DAILY PRICE OF WHITE SUGAR
(NO. 5 FOB EUROPE)
In $/MT from 2008 to 2010

Month	2008	2009	2010
January	334.03	345.24	733.43

February	359.89	389.83	714.23
March	347.29	392.98	546.07
April	351.18	405.44	495.74
May	329.13	442.99	471.43
June	362.08	439.88	510.25
July	377.66	459.31	571.00
August	395.17	548.88	578.05
September	395.17	540.12	558.87
October	325.33	583.69	688.80
November	326.68	598.09	734.96
December	313.53	656.79	769.33

Source: Joint Marketing Office of PT. Perkebunan Nusantara, processed by Indonesian Sugar Council (Dewan Gula Indonesia, DGI), 2010.

LONDON DAILY PRICE OF RAW SUGAR
(NO. 6 FOB CONTRACT EQUIVALENT)
In $/MT from 2008 to 2010

Month	2008	2009	2010
January	244.75	254.59	624.76
February	281.74	283.16	590.64
March	281.06	279.23	539.52
April	256.30	286.38	361.84
May	219.84	328.79	324.90
June	238.64	334.91	353.70
July	274.18	364.95	418.86
August	281.01	450.41	446.45
September	281.01	476.16	536.99
October	229.83	495.64	632.15
November	230.19	484.64	677.15
December	222.46	536.36	712.93

Source: Joint Marketing Office of PT. Perkebunan Nusantara, processed by Indonesian Sugar Council (Dewan Gula Indonesia, DGI), 2010.

2009-2011 MONTHLY AVERAGE RETAIL WHITE SUGAR PRICES
In JAKARTA MARKETS
(Rp./Kg)

Month	2009		2010		2011	
	Local	Imported	Local	Imported	Local	Imported

January	6,594	6,768	11,200	11,000	11,150	11,050
February	7,406	7,177	11,350	11,000	11,175	10,813
March	7,713	7,404	11,050	11,000	11,050	10,500
April	7,715	7,688	11,000	11,000	11,050	11,500
May	7,900	7,888	10,875	11,000		
June	8,140	8,000	10,600	10,875		
July	8,225	8,100	10,400	11,000		
August	8,775	8,425	10,500	10,250		
September	9,900	9,375	10,650	10,500		
October	9,850	10,375	10,800	11,000		
November	9,700	9,375	11,000	11,188		
December	9,875	9,813	11,125	11,250		

Source: Market Information Center (PIP), Ministry of Trade.

Note: Exchange rate is Rp. 8,628/US$ 1, as of April, 2011.